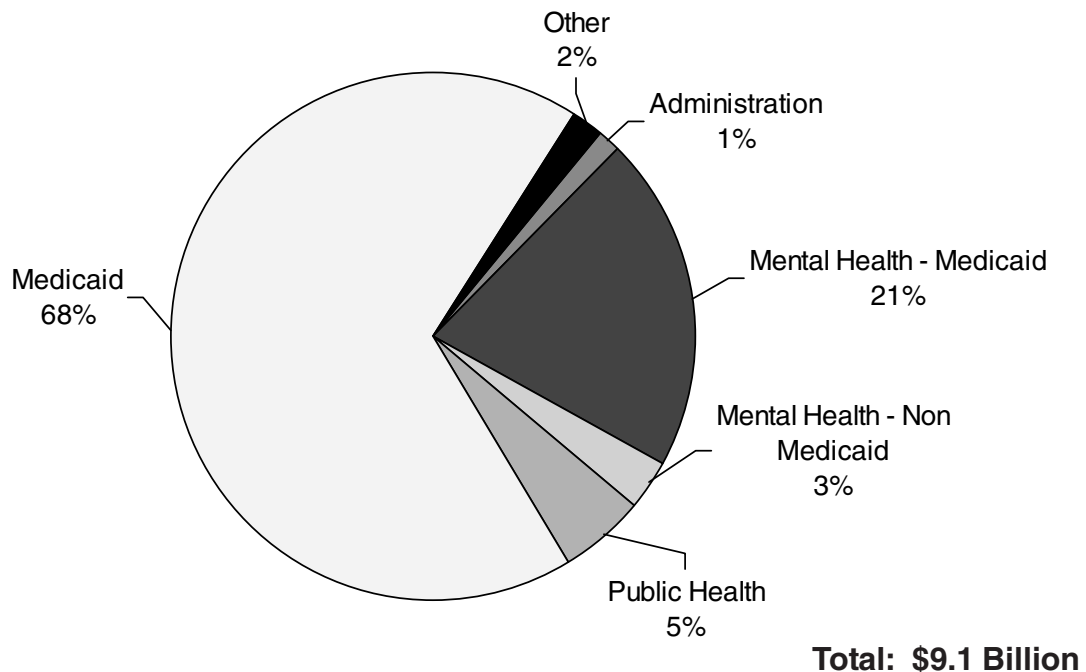


Department of Community Health

The Department of Community Health (DCH) was created in 1996 to better integrate health care services for Michigan residents. The department is responsible for health policy and management of the state's publicly funded health care systems. These programs include Medicaid health coverage for persons with limited incomes; mental health services for people who have a mental illness or a developmental disability; services for individuals who need care for substance abuse; and services provided through local public health operations. The department also provides services to promote the independence and preserve the dignity of Michigan's older persons. The Governor's proposed budget for fiscal year 2004 recommends total funding of \$9.1 billion, of which \$2.6 billion is general fund.

Medicaid Spending Consumes 89% of the Community Health Budget



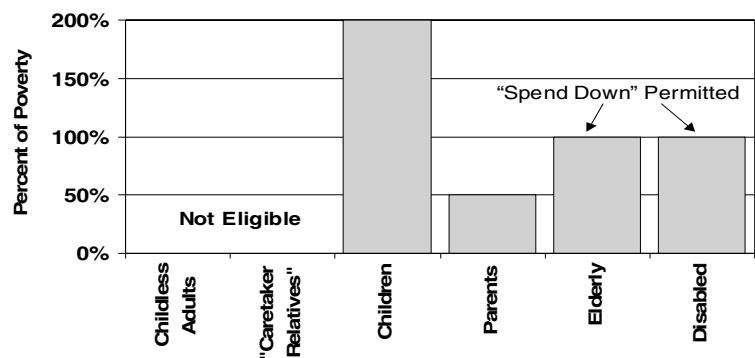
Department Priorities

- Preserve and maintain health care coverage and essential health care services for children and our most vulnerable elderly and disabled citizens.
- Reduce prescription drug costs for the Medicaid program and expand prescription coverage to an additional 25,000 low income senior citizens.
- Maintain a high quality system of community based care for individuals with mental illness, developmental disabilities or serious emotional disturbance.
- Strengthen the public health infrastructure to respond to potential bioterrorist or other public health emergencies.
- Extend the length of time that low-income, elderly citizens are able to remain in their own homes.

Budget Highlights

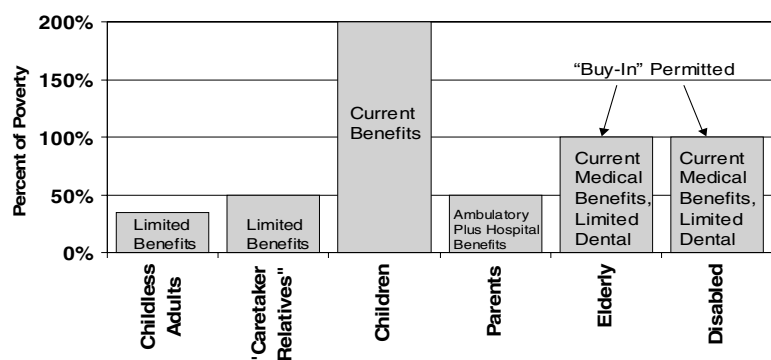
- ◆ Medicaid - Governors throughout the country are proposing substantial reductions in Medicaid eligibility and provider payments in order to reduce Medicaid costs to a level that can be financed by declining state revenues. Governor Granholm is recommending Michigan choose a different course: Michigan will temporarily constrain medical benefits to healthy adult Medicaid recipients, but will not cut provider rates nor terminate eligibility for any group currently receiving benefits. This policy change will be secured through an innovative waiver of federal Medicaid rules. The Medicaid Adult Benefits Waiver will also permit the state to leverage additional federal funding and provide a limited Medicaid benefit to approximately 135,000 uninsured adults, including individuals who were formerly classified as "caretaker relatives." This initiative will reduce Medicaid state costs by nearly \$110 million in fiscal year 2004. Chart A depicts the current Medicaid eligibility categories with the corresponding poverty levels for each category. Chart B demonstrates how a limited benefits package will be offered to childless adults and caretaker relatives while maintaining eligibility for the current groups.

Chart A - Medicaid Current Eligibility



- ◆ Funding for the medical and long term care portion of the Medicaid program is recommended at \$4.8 billion in fiscal year 2004. The Medicaid program provides quality health care services for over 1.2 million people in Michigan. The fiscal year 2004 recommendation includes funding increases to finance utilization cost increases and recognizes savings generated by restructuring of the program and through the more efficient management of the benefit package. No reductions in eligibility are recommended.

Chart B - Proposed Eligibility and Benefits



Cost increases related to utilization, inflation, and caseload changes have been funded at five percent for fiscal year 2003 and four percent in fiscal year 2004. These changes result in the commitment of \$160 million in new general fund resources for this portion of the Medicaid program. It is anticipated that the caseload increases experienced in 2001 and 2002 will moderate in fiscal year 2003 and decline in fiscal year 2004 as Michigan's economy recovers.

- ◆ In last year's campaign, Governor Granholm advocated the creation of multi-state purchasing collaborations to help contain Medicaid pharmaceutical costs. The Governor has successfully recruited three states -- Vermont, Wisconsin and South Carolina -- to combine their purchasing power with Michigan's to obtain reduced drug prices from pharmaceutical manufacturers. More states are expected to join in the near future. This process will reduce costs, but it will not adversely effect medical care. All FDA approved pharmaceutical products will remain available to all Medicaid enrollees. Multi-state drug purchases and other pharmacy cost containment initiatives will generate a \$40 million general fund savings in fiscal year 2004.
- ◆ Governor Granholm also supports restructuring the distribution of tobacco settlement revenues in the state. Statutory changes are recommended to increase the share of revenues supporting health care from 25 percent to 66 percent of the total annual award. This increased dedication of tobacco revenues will be used to support the Medicaid program, bringing total tobacco settlement Medicaid dollars to \$162.5 million.
- ◆ The Governor's recommendation continues the Quality Assurance Assessment Program that is a cooperative effort between the state and various medical providers to increase funding for critical Medicaid services. In fiscal year 2004, the program will generate a \$56.7 million general fund savings, while augmenting payment rates to hospitals, nursing homes and pharmacies.
- ◆ Mental Health – The fiscal year 2004 budget continues a commitment of over \$2.2 billion for mental health services. These funds support some of the state's most vulnerable populations. Less than 15 percent of mental health funding is now spent in state institutions, as the vast majority of services are provided in the community. Continuing this trend in fiscal year 2004, another \$53 million general fund is being moved out of state run hospitals and centers and into community based services. The closure of Northville Psychiatric Hospital is slated to occur in fiscal year 2003, and funding has been appropriately adjusted in the Executive Budget.

Cost increases related to utilization, inflation, and caseload changes have been funded, resulting in the commitment of \$18.3 million in new general fund resources for the Medicaid mental health program. A \$23 million Medicaid rate increase is also included in the recommendation.

- ◆ Public Health – Funding for public health programs is maintained at \$472 million for fiscal year 2004, in recognition of the critical role that public health programs play in our nation's homeland security initiatives. One important increase is recommended. Michigan will use \$250,000 in currently appropriated general fund resources to match \$2,250,000 in federal Medicaid funds that will then be used to finance a family planning benefit for low-income women not currently eligible for Medicaid. In fiscal year 2004, this program will serve about 16,500 women.
- ◆ Funding for the Elder Prescription Insurance Coverage program is increased from \$30 million to \$68 million which will increase the number of low-income seniors served by the program from 15,000 to 42,000.

Fiscal Year 2004 Governor's Recommendation
Department of Community Health
(\$ in Thousands)

	FY03 Enacted	FY03 Current Law	FY04 Recommended	% Change
GF/GP	\$2,540,198.9	\$2,411,310.4	\$2,583,938.6	1.7%
All Funds	\$9,397,514.7	\$9,217,477.6	\$9,117,346.9	-3.0%

Program	GF/GP	All Funds
Medicaid	\$1,315,648.6	\$6,090,798.5
Medicaid Fee for Service		
Medicaid Managed Care Services		
Medicaid Adult Benefits Waiver		
Children's Special Health Care Services		
Mental Health - Medicaid	\$794,483.5	\$1,962,072.0
Mental Health - Non-Medicaid	\$287,147.6	\$287,147.6
Public Health	\$74,918.6	\$472,020.1
Administration	\$64,637.3	\$127,425.8
Other	\$47,103.0	\$177,882.9
Office of Drug Control Policy		
Crime Victim Services		
Office of Services to the Aging		
Information Technology Services		
Total FY 2004 Recommendation	\$2,583,938.6	\$9,117,346.9